

CURRENT PROBLEMS OF TRADEMARK EXHAUSTION IN FOREIGN COURT PRACTICE

ABSTRACT: The author analyzes the principle of trademark exhaustion in the European Union. The institution of trademark exhaustion is a form of legal limitation of the subjective right of the trademark owner. EU member states have a national trademark protection system. On the other hand, a supranational trademark protection system was established in the EU, through which, among other things, there was introduced a system of regional trademark exhaustion.

In the paper, the Institute of trademark exhaustion will be analyzed through the latest practice of the EU Court of Justice. Namely, when the owner of the trademark or a third party, with his consent, puts the goods marked with the trademark on the market in the European Economic Area, the exhaustion of the trademark occurs. This means that the owner of the trademark cannot prevent the further circulation of these goods. However, it often happens that the goods are purchased in one country, where the goods were first sold by the trademark owner, and then being sold in another country. According to the significant differences in the prices of medical and pharmaceutical products in different EU countries, there is a significant market for the so-called parallel import of such goods.

Recent case law of the Court of Justice of the European Union has clarified how the provisions relating to the packaging and repackaging of medicinal products should be interpreted and applied in the context of parallel trade in pharmaceutical products within the EU.

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1. Introduction

A trademark as an intellectual property right is of a monopolistic nature and the holder of the right has the exclusive right to use or exclude others from using the mark protected by the trademark. Any form of use of a trademarked sign without the permission of the trademark owner constitutes trademark infringement. However, strict application of this exclusive right of the trademark holder may lead to the commercialization of the monopoly position of the trademark owner. For this reason, there is a concept of trademark exhaustion that aims to mitigate the broad discretionary powers of trademark owners.

The exhaustion of intellectual property rights has been a controversial issue in theory and jurisprudence for decades (Plöckinger, 2002, pp. 3, 11). The legal treatment of the exhaustion of intellectual property rights is still an unresolved issue in international trade (Calboli, 2021, p. 32). In Serbian law, trademark exhaustion is regulated in Art. 53 of the Law on Trademarks. In terms of this regulation, the trademark holder does not have the right to control the further circulation of goods marked with a trademark that the trademark holder or a person authorized by him has put into circulation anywhere in the world. The legal and political reason for the principle of exhaustion of the trademark is that the holder of the trademark realizes economic value when the goods marked with the trademark are placed on the market for the first time.

However, the principle of exhaustion does not apply without limitation. Namely, defacement of the trademark is not valid “in the case of the existence of a justified reason for the holder of the trademark to oppose the further placing on the market of goods marked with the trademark, especially if there was a defect or other significant change in the condition of the goods after their first placing on the market”. This rule aims to protect, first of all, the function of indicating the origin and the quality function of the trademark.

In the European Union (hereinafter: EU), the principle of exhaustion was regulated for the first time in Art. 7 of Directive 89/104, with the aim of overcoming differences in the national regulations of EU member states that hinder the free movement of goods and services. This Directive has been replaced by Directive 2008/95. Directive 2015/2436 is currently in force in the EU, which did not lead to any changes in terms of the substantive regulation of the trademark exhaustion principle. Namely, Art. 15 of Directive

2015/2436 corresponds in content to Art. 7 of the previously valid Directive 2008/95. In addition to Directive 2015/2436, Regulation 2017/1001 is also in force in the EU.

Trademark exhaustion can be divided into national, regional, and international exhaustion. This division was made according to the geographical extent of depletion (Jović, 2019, p. 159). The geographical scope of the exhaustion of the trademark is defined as the determination of the territory in which putting the goods into circulation results in the exhaustion of rights (Varga, 2015, p. 634). National exhaustion means that the owner of the trademark or a third party, with his consent, has put into circulation the goods marked with the trademark-protected sign in the country where the trademark is registered. The consequence of national exhaustion is that the owner of the trademark can prohibit the import of goods marked with a protected mark into the territory of validity of the trademark if the goods are first put into circulation outside the country where the trademark is registered. In other words, exhaustion is valid only in the territory of the country where the trademark was registered and where the goods were first put into circulation. International exhaustion, on the other hand, exists in the case when the owner of the trademark or a third party, with his consent, puts the goods marked with the trademark on the market anywhere in the world, including countries where the trademark in question is not registered. The consequence of international exhaustion is that the owner of the trademark cannot prohibit the import of goods into the territory of the country where the trademark is registered, which were put into circulation anywhere in the world by the owner of the trademark or a third party with his consent.

National trademark exhaustion benefits the trademark owner, while international trademark exhaustion benefits consumers. In the case of national exhaustion, the owner of the trademark can set different prices for the product depending on the country in which it is sold. In economically developed countries, the owner of the trademark will set a higher price for the product, and conversely, in less developed countries, he will set lower prices for his products. In the case of national exhaustion, the owner of the trademark has more freedom to decide whether to market its protected products in different countries or not (Calboli, 2002, pp. 48-49). In the case of international exhaustion of rights, the consumer can search for the best price between several suppliers of the same product. Once the product is sold anywhere in the world, consumers can take advantage of the price differences. It can be said that international exhaustion promotes the free movement of goods

in international trade more effectively than the national approach (Dobrin & Chochia, 2016, p. 29).

In our law, the principle of international exhaustion applies. This means that the owner of the trademark cannot prohibit a third party from importing into Serbia the goods marked with the trademark, which he or a third party with his consent has put into circulation anywhere in the world. The effect of international exhaustion is independent of the fact that the trademark owner does not enjoy adequate protection in the country where the goods were first put into circulation.

According to regional exhaustion, the rights of the trademark owner are exhausted throughout the region when the protected products are placed on the market in one member state of the region. Regional trademark exhaustion applies in the EU. When it comes to regional trademark exhaustion, it is fully harmonized within the EU to ensure the free movement of goods. Exhaustion applies to trademarks of EU member states (national trademarks) and EU trademarks. Trademark exhaustion occurs throughout the European Economic Area and the territorial scope of exhaustion cannot be extended by the national laws of an EU member state. Regulation 2017/1001 in Art. 15 prescribes that “an EU trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the European Economic Area under that trademark by the proprietor or with his consent”.

In any case, regardless of the form of exhaustion, if the trademark owner puts goods with the trademark on the market, the buyer of that product can freely decide whether to resell or even destroy the product (Sardina, 2011, pp. 1055, 1062).

2. Terms of trademark exhaustion

Trademark exhaustion always applies only to specific goods that are placed on the market with the consent of the trademark holder, and not generally to a specific class of goods. For example, the use of a trademarked sign on a loyalty card is exclusively reserved for the trademark holder and is not covered by the principle of exhaustion, because exhaustion applies only to goods that have been placed on the market with the consent of the trademark holder. Goods are understood to be all physical objects that are transferred across the border, which can have a monetary value and be the subject of commercial transactions. According to the practice of the EU Court of Justice, gas and electricity also fall under the concept of goods (Borchardt, 2020, p. 392). An additional condition for the principle of exhaustion is that the goods

are marked with a trademark protected by the trademark owner. It should be noted, however, that exhaustion cannot arise in relation to service. It follows from the text of national and supranational regulations on trademarks.

In order for the trademark to be exhausted, the goods must be placed on the market of the European Economic Area (EEA) by the trademark owner or by a third party, with the consent of the trademark owner. In case C-16/03, the Court of Justice of the EU took the position that goods marked with a trademark are not considered to have been placed on the market if the owner of the trademark imports the goods into the EEA with the aim of selling them there or only offers them in his business stores. In such a situation, the goods are not in the possession of a third party, that is, the third party cannot dispose of such goods. On the other hand, the trademark owner did not realize the economic value of the goods. This position was in accordance with Art. 5, paragraph 3 of the previously valid Directive 89/104 (now Article 10, Paragraph 3 of Directive 2015/2436).

Exhaustion of the trademark always occurs when the owner of the trademark or a person authorized by him puts into circulation the goods marked with the trademark, regardless of the provisions of the sales contract that limit or prohibit the resale of those goods (see the judgment of the Court of Justice of the EU in case C-16/03). This type of prohibition or restriction concerns the relationship between the contracting parties. The resale of goods that is performed contrary to the contract cannot be prohibited by reference to the exclusive right of the trademark owner. The placing on the market of goods marked with a trademark is attributed to the owner of the trademark even when the goods are first put on the market by the company within the concern that is the owner of the trademark.

Exhaustion of the trademark also occurs when the goods are put on the market by a third party with the consent of the owner of the trademark. The third party is the licensee or sales partner, especially those authorized to sell independently. The trademark owner's consent for placing the goods on the market is actually the will of the trademark owner to waive the right to control the first placing of the goods on the market. This will usually be the result of express consent. The EU Court of Justice left it to national courts to assess the conditions under which the trademark owner's conclusive consent to the placing of goods on the market by a third party leads to the exhaustion of the trademark.

The license agreement itself does not represent the trademark owner's unconditional and absolute consent to the marketing of goods marked with the trademark. Namely, Directive 2015/2436 in Art. 25, paragraph 2 Article 8 gives the trademark owner the right to oppose the use of the trademark by the licensee

who violates one of the clauses specified in Art. 25, paragraph 2 of the Directive. If the licensee puts into circulation goods marked with a protected trademark in violation of any of the above clauses, he acts without the consent of the owner of the trademark. In other words, trademark exhaustion does not occur in that case. Other violations of the contract by the licensee have only contractual effects and do not affect the existence of the trademark owner's consent.

The essential condition for the exhaustion of the trademark is that the permanent alienation of the goods marked with the protected mark occurred at the will of the owner of the trademark or a person authorized by him to do so. In practice, the authorization to market products marked with a trademark is usually granted through a license agreement. This assignment may be temporally and territorially limited. The possibility of territorial limitation is essential for understanding the institution of trademark exhaustion, above all in countries that have opted for international trademark exhaustion. For example, if the owner of the trademark assigns to another the authorization to put the goods into circulation without territorial limitation, exhaustion occurs for the whole world, regardless of the country in which the goods were first put into circulation by the licensee. If, on the other hand, the owner of the trademark assigns to another the authorization to put the goods into circulation with a territorial limitation, e.g. for countries X, Y, and Z, then it occurs only for these three countries, regardless of which of them the goods were first put into circulation. This further means that exhaustion does not occur in any of these countries if the goods are first put into circulation outside their territory. Namely, in this case, the condition that the goods were placed on the market with the consent of the trademark owner was not met.

In connection with trademark exhaustion, cases in which the trademark owner has authorized a third party to place the trademark-protected sign on its products and to put such marked products on the market may be interesting. However, the licensee, contrary to the contract, produces and marks a larger quantity of goods than the contracted one (Wölfel, 1990, p. 17). Since in practice, it is difficult to distinguish between products that were (not) produced and sold in accordance with the contract, and since this way, the function of origin of the trademark is not violated, in this case, it is not possible to talk about trademark infringement, but about the violation of contractual obligations.

The exhaustion of the trademark occurs only in relation to those samples of goods that the owner of the trademark or a third party, with his consent, put into circulation for the first time on the market in the EEA. With regard to other examples of goods that have not been put on the market in the EEA

for the first time in this way, the owner of the trademark can still exercise its exclusive rights. In several cases, the EU Court of Justice has dealt with the question of whether the exhaustion rule applies to protected samples of goods (eg small perfume bottles and saws) that the owner gives to authorized sellers. In these cases, the Court held that if the trademark owner makes saws available for the purpose of demonstration and prohibits their sale, the goods cannot be considered to have been placed on the market (see e.g. the judgment of the Court of Justice of the EU in the case C-127/09 and C-324 /09).

In the Davidoff case (joined cases C-414/99 to C-416/99), the Court of Justice of the EU took the position that the third party is obliged to prove the existence of consent to the marketing of goods marked with a trademark. In other words, the owner of the trademark is not obliged to prove the absence of consent to placing the goods on the market.

3. Parallel importation of drugs and requirements for repackaging and labeling of packages

Following the principle of exhaustion of the trademark, the holder of the trademark cannot prohibit the further circulation of goods marked with the protected trademark, which were placed on the market in the EEA by the owner of the trademark or with their consent. Further traffic may include parallel import of goods, i.e. cases when goods marked with a trademark are bought in one country (where the goods were sold by the owner of the trademark) and then sold in another country. Given the significant differences in the prices of medical and pharmaceutical products in different EU countries, there is a significant market for parallel imports of these goods. However, if the owner has legitimate reasons for doing so, he can prevent further circulation of the goods, especially if the condition of the product changes or deteriorates after the first sale.

The concept of parallel imports is a growing phenomenon in today's globalized world (Dobrin & Chochia, 2016, p. 29). In the EU, it is common practice to buy products, especially medicines, in EU countries with lower prices and then resell them in EU countries with higher prices, such as Germany, Denmark, and Sweden. This so-called "parallel import" is in principle acceptable, as it contributes to competition within the EU. However, when importing, parallel importers must, in accordance with local regulations, label the medicines in the language of the EU country where they are offered for sale. Therefore, parallel importers must open the sealed outer original package to replace the information for the use of the drug. The opening of

the outer packaging is visible in most cases. In the EU, most prescription medicines and some non-prescription medicines must have a tamper-evident device on the outer packaging. An example of a device to prevent unauthorized opening is a seal that breaks when the outer packaging of a medicine is opened. Parallel importers generally offer medicines from the original manufacturers in their packaging, on which, in addition to their trademark, they also put the trademark of the original manufacturer. According to the established practice of the EU Court of Justice, repackaging and affixing of these trademarks by parallel importers constitutes trademark infringement. Only in exceptional cases, repackaging and putting someone else's trademark on the new package is allowed based on trademark regulations.

The issue of trademark exhaustion is directly related to the freedom of movement of goods within the EU market. The Treaty on the Functioning of the EU in Art. 36 allows for proportionate bans or restrictions on imports between EU member states that are justified on the basis of the protection of industrial and commercial property, provided that they do not constitute a means of arbitrary discrimination or a disguised restriction of trade between member states. In this connection, the question arose as to whether the reference to the trademark in cases of parallel import calls into question the free movement of goods within the EU. Over the years, a rich case law has been developed in connection with this issue. In particular, the Court of Justice of the EU had the opportunity in the cases of Hoffmann-La Roche (case C-102/77), Bristol-Myers Squibb – abbreviated: BMS (joined cases C-427/93, C-429/93 and C- 436/93), Upjohn (Case C-379/97) and Boehringer (Case C-348/04) deals with the parallel importation of pharmaceutical products first sold under a trademark.

In the BMS case, the Court laid down five cumulative requirements for the legitimate repackaging of rebranded pharmaceutical products. First, it must be proven that invoking the trademark holder's right would contribute to the artificial division of the market between Member States. This will be especially the case if the packaging differs in different territories to the extent that the importer has to repackage the product in order to market it. A parallel importer may replace the sign used by the trademark holder in the territory of export with a sign used in the territory of import only if it is objectively necessary. The second condition involves proving that repacking, ie. relabeling cannot affect the original condition of the product. The third condition is that the new packaging must clearly and comprehensibly indicate the repackaging company and the original manufacturer. The fourth condition is that repackaging cannot lead to damage to the reputation of the trademark.

The last condition obliges the importer to notify the owner of the trademark in advance about the repackaged sale, ie. relabeled product.

Therefore, according to the established judicial practice in the EU, the parallel importer of medicines can replace the original packaging only if it is considered objectively necessary for effective access to the market in the importing country (see, for example, the Ferring case, C-297/15). When making such an assessment, national courts must take into account the circumstances prevailing at the time the medicinal products were placed on the market in the importing country. It is important to note that the parallel importer bears the burden of proving that the replacement of the original packaging is objectively necessary.

Counterfeit medicines are a global problem that poses a significant health risk to patients and can also cause patients to lose confidence in the legal supply chain. The share of counterfeit medicines on the world market is often estimated at around ten percent. In the EU, monitoring and precautionary measures to combat falsified medicines have long been in place, for example, the Rapid Alert System. Efforts have recently been intensified by the introduction of special security features to protect against the counterfeiting of medicines. At the beginning of February 2019, new rules on medical products came into force. It is about Directive 2011/62 (the so-called Counterfeit Medicines Directive) and Regulation 2016/161 (collectively “Safety Rules”). The new rules require, among other things, that the packaging contains security features that allow control of the authenticity of the drug, identification of individual packages, as well as a device that allows checking whether the outer packaging has been tampered with. Specifically, the outer packaging or, if there is no outer packaging, the immediate packaging of the medicine must contain two main security measures: 1) a unique identifier, which enables “wholesale distributors and persons authorized or entitled to supply medicinal products to the public to verify the authenticity of the medicinal product, and identify individual packs”; 2) device against an unauthorized opening, which enables “verification of whether the outer packaging has been tampered with”. Said safety features may not be removed or covered unless the manufacturing authorization holder confirms, before partial or total removal or covering of those safety features, that the medicine in question is authentic and has not been tampered with. If security features are removed or covered, they must be replaced with security features that are equivalent in terms of being able to verify authenticity and identification and provide evidence of tampering with the medical device.

As important as protection against counterfeit medicines is, the new anti-counterfeiting rules are in conflict with the free movement of goods within the EU. This conflict is particularly prevalent in the pharmaceutical sector, where there are significant differences in drug price levels between different member states. Referring to the new Safety Rules, parallel importers increasingly state the argument that now, as a main rule, it would be considered objectively necessary to replace the original packaging of medicines instead of a less intrusive measure. The Court of Justice of the EU had the opportunity to comment on this issue based on three separate requests from the national courts of Germany (cases C-147/20 and C-204/20) and Denmark (case C-224/20).

3.1. Case C-147/20

In this case, the plaintiff is the German pharmaceutical company Novartis Pharma, which is the owner of the European Union verbal trademarks Novartis and Votrient. In accordance with Regulation 2016/161, the outer packaging of drugs sold by Novartis Pharma is protected against the opening. The defendant is the company Abacus Medicine, which distributed the plaintiff's medicines from the Netherlands to Germany. Due to the requirements of Directive 2011/62/E, the defendant faced the problem that pharmaceutical packages equipped with anti-opening devices must be opened to replace the cartridge and supply new anti-opening devices, which is usually not possible without leaving a trace. Therefore, the defendant considers that he is obliged to repackage the parallel imported goods in new, undamaged folding boxes. In this regard, the Abacus company informed the Novartis company that it will repack the parallel imported medicines of the Novartis company and submit the packaging samples of the said medicines. On the contrary, the plaintiff considered that repackaging of the disputed medicines is not necessary, ie. that the defendant could fulfill the requirements prescribed in art. 47(a) and Art. 54 (a) of Directive 2001/83 by placing on the original outer packaging a barcode with a unique identifier from Art. 3, paragraph 2(a) of Regulation 2016/161, as well as self-adhesive stickers. Also, after placing the drug instructions in German in that package, a new anti-opening protection can be placed on the original package, which covers the traces of opening the original package.

The dispute eventually reached the Court of Justice of the EU. In its decision, the court clarified that the use of new packaging and re-labeling for repackaging the parallel imported medicines are in principle equally suitable measures for meeting safety features in accordance with Article 47(a) of Directive 2001/83. Under certain conditions, however, the parallel importer

can use the new folding boxes to distribute his drugs. First, this is the case if the anti-tampering device securing the outer packaging of that medicinal product cannot objectively be replaced by an equivalent device within the meaning of Article 47a(1) and (b) of Directive 2001/83 and thus would prevent the distribution of that medicinal product into its relabelled original packaging in the Member State of importation. secondly, the applicant argues that the new folding box can be used where there is an obstacle to effective access to the market of a Member State which could make repackaging necessary if there is such strong resistance to rebranded medicines in that market or a significant part of it, not a small part of consumers that an obstacle to effective access to the market must be assumed. Similarly, when a significant proportion of consumers in the importing Member State refuse to buy a medicinal product whose outer packaging shows visible signs of opening caused by the substitution, in accordance with Article 47a(1) of Directive 2001/83, of an existing tamper-proof device by an equivalent device.

3.2. Case C-204/20

In case C-204/20 the Court of Justice of the EU answered several questions raised by the Regional Court in Hamburg. The questions concerned the interaction between the trademark regulations and the new EU regulations on the protection against the falsification of medicines in the light of the free movement of goods in the EU. In this case, the plaintiff is the German pharmaceutical company Bayer, owner of the EU trademark Androcur for drugs. The defendant is a parallel importer, the Kohlpharma company, which sells medicines in Germany that it procures from other EU countries and imports them into Germany in parallel. At the beginning of 2019, the defendant informed the plaintiff that he would import the drug “Androcur 50 mg” from the Netherlands in a package of 50 tablets in order to sell it in a package of 50 and 100 tablets in Germany. In addition, the defendant informed the plaintiff that, according to German regulations, he had to put instructions for use in the German language in the packaging of the drug, as a result of which the tamper-proof device attached to the outer packaging of the drug was damaged. Consequently, it was necessary to replace the original packaging. However, the plaintiff objected to the proposed replacement, arguing that the use of new packaging would go beyond what is necessary to market the drug in Germany.

The defendant company Kohlpharma pointed out in its defense that according to the new European pharmaceutical regulations, repackaging

is no longer a milder, but a completely inappropriate procedure in the drug trade. Instead, overpacking is now not only allowed but even considered the norm. The defendant, therefore, considered that the principle of trademark exhaustion could be invoked. Therefore, the question arose whether it follows from the regulations on drugs that repackaging is preferable to relabeling the drug and whether the choice between the two situations is solely a matter for the parallel importer. In view of this, the Regional Court in Hamburg suspended the proceedings and initiated a preliminary ruling procedure before the Court of Justice of the EU.

The dispute in case C-204/20 shows that the practice of parallel importation continues to open up complex legal issues at the intersection of different areas of law, especially trademark and drug regulations. In its ruling, the court largely favored the owners of pharmaceutical trademarks. Namely, in its judgment, the Court clarified that in the case of parallel import, there is no legal priority for repackaging in relation to relabelling. At the same time, the Court considers that the repackaging of medicines represents a more serious encroachment on the rights of the trademark holder compared to the relabelling of the original packaging of medicines. The situation is different only if visible traces during relabeling create such strong resistance to the newly labeled drugs on the market of the importing country that they should be seen as an obstacle to real access to this market. This is a question of fact and will have to be examined in light of the circumstances of each individual case. Therefore, in the future, parallel importers will have to prove, based on specific facts and circumstances in the country of import, that repackaging is necessary because relabeling would meet with great resistance and represent an obstacle to access to the drug market of the country of import. In other words, there is no general assumption that pharmacies and patients will have a correspondingly high resistance to rebranded drugs.

3.3. Case C-224/20

In case 224/20 the Court of Justice of the EU answered several questions raised by the Danish Maritime and Commercial Court. Seven related cases related to parallel importation and repackaging of medicines were conducted before this court. The plaintiffs, in this case, were pharmaceutical companies (among others, Novartis, Ferring, Lundbeck, and Merck Sharp) that simultaneously own pharmaceutical trademarks for the drugs they manufacture and sell. On the other hand, the defendants are parallel importers, companies that sold medicines on the Danish market that the plaintiffs had previously

put on the market in other EU countries. Before placing the drugs on the Danish market, the parallel importers repackaged the drugs in the new outer packaging. On some new packages, parallel importers put the trademarked sign of the drug manufacturer, while on some packages that sign was replaced by the new name of the product. The parallel importers informed the owners of the pharmaceutical trademarks that the security stickers (anti-tamper devices) attached to the outer packaging of the drugs must be broken and the packaging replaced. The reasons for this were usually the need to subsequently put instructions on the use of the medicine in the Danish language in the packaging. Pharmaceutical companies objected to the proposed new packaging, arguing that the use of the new packaging went beyond what was necessary to market the drug in Denmark. Parallel importers justified the repackaging by saying that wholesalers and pharmacists were obliged to check whether the outer packaging had been opened without authorization. This can only be prevented by new outer packaging and its re-labeling.

In its judgment in case C-224/20, the Court of Justice of the EU also stated that national regulations cannot stipulate that, in parallel, medicines must always be repackaged in new packaging with relabeling and attaching new safety features. As in the previous two cases, the Court decided that the rules, which make an additional security seal and a unique barcode mandatory on all drug packages, were introduced to give patients greater certainty that counterfeit drugs cannot be placed in original packages. The judgments confirm that patient safety always comes first. And this judgment confirms that the parallel import of medicines is a consequence of the free movement of goods on the EU internal market. However, this freedom does not give parallel importers the right to insult the trademarks of the original drug manufacturers, that is, to call into question their position as guarantors of drug quality and patient safety.

4. Justifiable reasons for the trademark owner to oppose the further commercialization of the goods marked with the trademark

As previously pointed out, trademark exhaustion does not apply if the trademark owner has legitimate reasons to oppose the further commercialization of the goods marked with the trademark. These justified reasons are not exhaustively specified in the valid domestic and foreign regulations and are therefore subject to interpretation. Accordingly, these legitimate reasons were at the heart of a dispute before the Commercial Court

of Finland which led to an appeal before the Supreme Court of Finland and finally to the referral of the case to the Court of Justice of the EU on 9 March 2021 (Case C- 197/21). The dispute started in the Finnish market. The reason for the dispute was the production and sale of carbonation equipment by the SodaStream company. This equipment allows consumers to make sparkling water and flavored sodas from plain tap water. The SodaStream company sells carbonation equipment with a refillable carbon dioxide bottle. These bottles are also sold separately by the company. SodaStream is the owner of the EU trademarks “SODASTREAM” and “SODA-CLUB”. These marks are on the label and are engraved on the aluminum part of these bottles. On the other hand, the Finnish company MySoda sells full carbon dioxide bottles that are compatible with both their and SodaStream carbonation equipment. After acquiring SodaStream bottles that consumers have returned empty through retailers, MySoda refills them with carbon dioxide. In addition, the company replaces the original labels on full bottles with its labels, leaving visible the SodaStream trademarked characters engraved on the bottle itself.

SodaStream filed a lawsuit alleging that MySoda infringed on the SODASTREAM and SODACLUB trademarks in Finland by advertising and selling pre-filled carbon dioxide bottles bearing said marks without the trademark owner’s consent. The dispute eventually reached the Court of Justice of the EU.

In its decision, the Court of Justice of the EU referred several times to its earlier “Viking-Gas” decision in case C-46/10. This procedure was related to the filling of gas cylinders with liquid gas in composite cylinders. In legal terms, the difference between the two cases is that the customer had to purchase the composite cylinder separately from the liquid gas, so the cylinder was considered a separate product. However, in the judgment in case C-197/21, the Court considered that it is possible for the consumer to consider the carbon dioxide bottle as packaging. In a legal assessment, however, these are only individual aspects of all the circumstances of an individual case regarding the question of whether refilled bottles give a false impression of the economic connection between the trademark owner and the refilling company.

In its judgment, the Court of Justice of the EU confirmed that according to Article 15, para. 2 of Regulation 2017/1001, the trademark owner who has placed on the market goods bearing his trademark, which are intended to be reused and replenished several times, may take measures against the reseller who refills the goods and replaces the label with the original trademark with other marks, but leaves the original trademark visible in said goods and then markets those goods, provided that these new marks create a false impression

among consumers that there is an economic connection between the reseller and the owner of the mark. To assess this false impression, the “circumstances surrounding the reseller’s activity” must be taken into account. These include the way in which bottles with the new label are presented to consumers, the conditions of sale, and the practices prevailing in the sector concerned. Also, the fact that consumers are used to having their bottles refilled by retailers who are not the owners of the trademark must also be taken into account. At the same time, the Court stated that there is a likelihood of confusion on the part of the consumer regarding the relationship between the companies Mysoda and Sodastream since the consumer does not have direct contact with the reseller. Both companies do not offer their bottles directly to consumers, ie. their products are only available in stores.

The ruling strengthens the rights of trademark owners, as it confirms their legitimate interest in protecting their trademark even after the first sale of goods in the EU. The ruling also provides important guidance on the circumstances in which a trademark owner can exercise these rights, particularly in cases involving goods that are intended to be used repeatedly. The ruling will also have implications for businesses operating in the circular economy, as it highlights the need for resellers of reused goods to pay attention not only to new product labels but also to distribution methods and terms of sale as a whole to ensure consumers are not misled. with regard to the origin of the goods.

The EU Court of Justice had the opportunity to deal with the limits of trademark exhaustion in case C-642/16. The case is related to the company Lohmann, which is the owner of the EU trademark “debrisoft” for sanitary preparations for medical purposes. The Austrian parallel importer Junek Europ-Vertrieb imported from Austria to Germany the original products of the trademark owner “debrisoft”. The importer placed a label on the original packaging with the following information: the name of the company responsible for the import, its address, bar code, and central pharmaceutical number. The sticker was placed on the unprinted part of the box and did not obscure the trademark of the manufacturer. The parallel importer did not inform the manufacturer about the reimport of medical devices. The owner of the trademark considered that the parallel importer has no right to put an additional label on the original packaging of the product without his consent. In this regard, the German Federal Court initiated a preliminary decision procedure before the Court of Justice of the EU with the question of whether the principles developed by this Court for the parallel import of medicines, according to which prior information and the provision of a sample of the

packaging at the request of the trademark owner are a prerequisite for the exhaustion of the trademark, are applied without restrictions on the parallel import of medical devices.

In its ruling, the Court of Justice of the EU first recalled its practice of limiting trademark exhaustion and the permissibility of reselling repackaged medicines. According to that jurisprudence, the repackaging of products marked with a protected trademark, as well as their relabeling, fundamentally affects the function of marking the origin of the trademark. In the case of sensitive products, especially pharmaceuticals, the trademark owner may have legitimate reasons to prohibit further distribution of the pharmaceutical product. Such a limitation is allowed unless the so-called BMS conditions, which were discussed earlier in this paper.

Unlike the previously analyzed cases, in which the parallel importer opened the original package or used a new package to add instructions in the language of the country of import, in this case, the parallel importer only placed an additional small sticker on the unprinted part of the unopened original package. Placing such a label does not constitute repackaging in the sense of the previous cases and does not affect the guarantee of origin of the medical device bearing the trademarked mark. In this sense, the Court considered that the owner of the trademark has no legitimate reason to oppose the further distribution of the medical device in question. In other words, his right has been exhausted.

5. Conclusion

Parallel importation of goods marked with a trademark has again become relevant in foreign judicial practice. The Court of Justice of the EU recently issued three rulings that clarified the conditions for repackaging medicines for foreign imports. The main focus in these cases was whether the trademark owner had the right to oppose the repackaging of the drug by the parallel importer if the replacement of the tamper-evident device would leave visible marks on the drug package.

EU law gives the trademark owner the exclusive right to distribute goods bearing the trademark only until such goods are placed on the EEA market. After that, the owner of the trademark is prohibited from exercising its rights to distribution, i.e. sale of goods by third parties. However, there are limits to trademark exhaustion in the context of parallel imports (when products are purchased in one EU member state, sold by the trademark owner or with his consent, and later sold in another EU member state). The importer has the

right to repackage and relabel the original products only if the five so-called BMS conditions.

The circulation of pharmaceutical products in the EU is regulated by a series of specific regulations, which aim to ensure that such products are safe and that their circulation is controlled. The most important regulations in this regard are the Medicines Directive 2001/83, which was supplemented by the Counterfeit Medicines Directive 2011/62, and Regulation 2016/161. These regulations introduced additional requirements for the packaging of medicines. According to the latest regulations, the outer packaging, i.e. the immediate packaging of the medicine, must contain two main security measures: a unique identifier (such as a barcode, which confirms the origin and authenticity of the product), and a device against unauthorized opening (for example, a security seal that shows whether if the package is opened or changed).

Regulation 2016/161 was the trigger for the latest judgments of the Court of Justice of the EU. Namely, in recent years, some parallel importers have referred to Directive 2011/62 to justify the use of new packaging instead of new labeling of the original packaging. The EU Court of Justice had the opportunity to assess the necessity of repackaging medicines in three very similar cases, in a situation where the replacement of the anti-tampering device would leave visible traces. The position of the parallel importers was that visible and irreversible traces of opening the original package cast doubt on the integrity of the medicine. However, pharmaceutical companies, on the other hand, believed that importers could meet the requirements of pharmaceutical regulations by adding a new anti-tampering device that covers the traces of opening the original package. This indicates that this new security seal was placed during a legal repack.

In three separate rulings, the EU Court of Justice has made it clear that repackaging medicines are not mandatory. In the Court's opinion, the mere presence of traces on the outer packaging of the medicine opened by the parallel trader is not in itself sufficient to justify the replacement of this outer packaging. Therefore, parallel traders cannot just rely on the fact that their actions, which are conditioned by the local regulations of the importing country, leave traces on the outer packaging of the drug, which is why they have to completely repackage it. Exceptionally, repackaging is allowed when there is strong resistance from a significant part of consumers in the import market. However, the parallel importer must prove consumer resistance to over-labeled drugs.

From the analyzed judgments of the EU Court of Justice, it follows that EU member states cannot require parallel importers to repackage the parallel

medicine in a new package, instead of relabeling it. Recent decisions of the EU Court of Justice represent an attempt to maintain a balance between the principle of the free movement of goods within the EU and the rights of trademark owners. The analyzed judgments provide some guarantee to trademark holders that parallel importers are now not free to repackage drugs to meet the requirements of new pharmaceutical regulations aimed at protecting consumers. The rulings provide some clarity to parallel importers as to when they can and must repackage pharmaceutical products. However, it remains unclear under what conditions consumers will be deemed to have shown sufficient resistance to relabeled and resealed goods to allow repackaging.

In addition to the issue of parallel import of goods marked with a trademark, the Court of Justice of the EU had the opportunity to deal again with the conditions under which the owner of the trademark, who put his goods on the market and which are intended for reuse or replenishment, can oppose such a practice. In the Court's opinion, the trademark owner has a legitimate reason to oppose the further distribution of goods marked with his trademark, if the consumer gets a false impression of the existence of an economic relationship between the trademark owner and resellers. This is primarily the case when the reseller removes the trademark owner's label and sticks his own, but the original trademarked sign engraved on the goods still remains visible. The issue of misrepresentation as to the economic relationship between the trademark owner and resellers must be comprehensively assessed on the basis of the indications on the product and its relabelling, as well as on the distribution practices of the industry concerned and the degree of awareness of those practices among consumers. The decision on all this is made by the national court. In any case, the EU Court of Justice suggests that a consumer who goes directly to a seller who is not the owner of the original trademark to refill an empty bottle or exchange it for a filled bottle will more easily perceive that there is no connection between the seller and the owner of the trade mark.

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AKTUELNI PROBLEMI ISCRPLJENJA ŽIGA U STRANOJ SUDSKOJ PRAKSI

REZIME: Autor u radu analizira princip iscrpljenja žiga u Evropskoj uniji. Institut iscrpljenja žiga je oblik zakonskog ograničenja subjektivnog prava vlasnika žiga. Države članice EU imaju nacionalni sistem zaštite žiga. Sa druge strane, u EU je uspostavljen nadnacionalni sistem zaštite žiga, kojim je, između ostalog, uveden sistem regionalnog iscrpljenja žiga. Institut iscrpljenja žiga će u radu biti analiziran kroz najnoviju praksu Suda pravde EU. Naime, kada vlasnik žiga ili treće lice uz njegovu saglasnost stavi u promet robu obeleženu žigom na tržište u Evropskom ekonomskom prostoru, nastupa iscrpljenje žiga. To znači da vlasnik žiga ne može da spreči dalji promet te robe. Međutim, često se roba kupuje u jednoj zemlji, u kojoj je robu prvi put prodao vlasnik žiga, a zatim se prodaje u drugoj zemlji. S obzirom na značajne razlike u cenama medicinskih i farmaceutskih proizvoda u različitim zemljama EU, postoji značajno tržište za takozvani paralelni uvoz ove robe.

Nedavna sudska praksa Suda pravde Evropske unije je razjasnila kako treba tumačiti i primenjivati odredbe koje se odnose na pakovanje i prepakivanje medicinskih proizvoda u kontekstu paralelne trgovine farmaceutskim proizvodima unutar EU.

Ključne reči: žig, iscrpljenje, paralelni uvoz, prepakivanje.

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